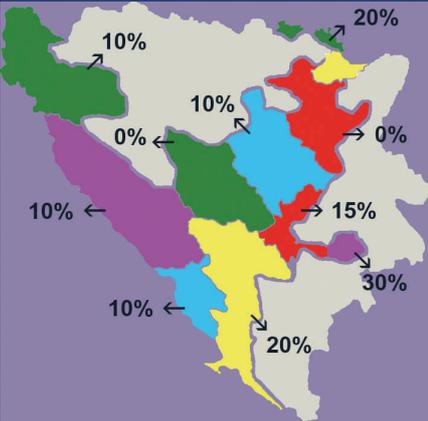




Total Funding: \$12.1 million

Duration: May 2006 -
November 2010

Implementer: Bearing Point



Rates of Personal Income Tax in Bosnia and Herzegovina before the new taxation was introduced

Taxes Must be Equal for Everybody

A Gorazde resident with a high salary used to pay a 30% tax on his/her income, while in Tuzla and Middle Bosnia residents earning the same amount paid nothing. The new Personal Income Tax equalizes the system by replacing multiple taxes on income with a single personal income tax that is applied throughout the Federation.

Tax Reform Activity (TARA)

Simple, broad-based, low rate tax system for easier collection and compliance

Challenge

The laws and regulations governing taxation in general and direct taxes in particular (corporate and personal income tax and real estate tax) influence the level of economic activity in Bosnia and Herzegovina (BiH). The BiH direct tax regime was highly complex, burdensome for taxpayers, and characterized by low compliance. The unharmonized direct tax regulations were a major hurdle to creating a “single economic space” conducive to the development of the private sector in BiH.

USAID Initiative

USAID, through its Tax Reform Activity (TARA), assisted counterparts in designing a legal framework for direct taxation that is regionally competitive, comprehensive, coherent and consistent with international best practices. New and improved personal income and corporate income tax laws are harmonized between entities to reduce the burden on taxpayers and also to make administration of those taxes easier and less expensive.

Results

TARA, in partnership with the Ministries of Finance from the Republika Srpska (RS) and Federation of Bosnia and Herzegovina (FBiH) drafted and lobbied for passage of Personal Income Tax (PIT) and Corporate Income Tax (CIT) laws. In the RS the laws passed in 2006; secondary legislation, rule-books and tax forms were developed, and the laws were implemented in 2007. In the FBiH the laws passed in 2007. CIT began its first year of implementation in 2008, while PIT implementation started in 2009.

Real Estate Tax (RET) legislation was passed in Brcko District. TARA trained counterparts to conduct property surveys to establish the fiscal cadastre, which will serve as the basis for taxation. Property sales tax was reduced in Brcko, and authorities are preparing to eliminate a number of nuisance and unproductive fees and taxes in 2009, as the implementation of RET starts to bring a revenue to Brcko budget.

Current Activities

Through the Implementation Board, USAID’s TARA project is supporting the realization of PIT in FBiH. In the RS, TARA is helping counterparts to draft rule books and develop an implementation plan for the new RET law, which will be implemented in January 2010. In Brcko, TARA is providing custom-made software to the Tax Administration in Brcko in order to ensure successful implementation of the real estate tax. TARA also facilitates cooperation and coordination between the three tax administrations.